



Auditor-General of South Africa

Ingwe Municipality - Audit report
2014-15

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Ingwe Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of Ingwe Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget information with actual information for the year then ended as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of Ingwe Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material impairment

7. As disclosed in note 4 to the financial statements, a material impairment to the amount of R8,15 million (2014: R7,09 million) were incurred as a result of the annual review of the collectability of consumer debtors.

Report on other legal and regulatory requirements

8. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

9. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for unlock access to economic opportunities, social services and facilitate additional infrastructure provision, install electrical household connections and enhance productivity and construct community recreational amenities objectives presented in the annual performance report of the municipality for the year ended 30 June 2015.
10. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
11. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
12. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

13. The material findings in respect of the selected objective are as follows:

Install electrical household connections and enhance productivity

Usefulness of reported performance information

Measurability of indicators

Performance indicators not well defined

14. Performance indicators should be well-defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPPI. All indicators were not well-defined due to a lack of understanding of the performance reporting requirements.

Reliability of reported performance information

15. The FMPPPI requires municipality's to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to the fact that proper indicator definitions were not used to predetermine the evidence and method of calculation for actual achievements.

Construct community recreational amenities

Usefulness of reported performance information

Consistency of indicators

Reported indicators consistent with planned indicators

16. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 88% of the reported indicators were not consistent with those in the approved integrated development plan due to a lack of understanding of the performance reporting requirements.

Measurability of indicators

Performance indicators not well defined

17. Performance indicators should be well-defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPPI. A total of 88% of the indicators were not well-defined due to a lack of understanding of the performance planning requirements.

Reliability of reported performance information

18. The FMPPI requires municipality's to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence as indicator definitions were not developed to support actual achievements.

Additional matter

19. I draw attention to the following matter:

Achievement of planned targets

20. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the adverse conclusions expressed on usefulness and reliability of the reported performance information in paragraphs 14 to 18 of this report.

Compliance with legislation

21. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

22. The performance management system and related controls were not maintained as it did not describe and represent the processes of performance review and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the municipal planning and performance management regulations.

Annual financial statements

23. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of property, plant and equipment, general expenses, revenue and disclosures identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Supply chain management

24. Contracts were modified without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.

Conditional grants

25. The Municipal Systems Improvement and Local Government Financial Management Grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the DoRA.

Internal control

26. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in [the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

27. Management did not pro-actively monitor their audit action plan in order to address the areas of accurate and reliable reporting of performance information and the compliance with key legislation.

Financial and performance management

28. Non-compliance with legislation could have being prevented had management monitored their compliance checklists.

Other reports

Investigations

29. The municipality instituted an internal investigation into SCM irregularities during the current period. The investigation was concluded on 26 March 2015 which resulted in the dismissal and criminal proceedings being instituted against an employee.
30. The KwaZulu-Natal Department of Co-operative Governance and Traditional Affairs was conducting an investigation on the possible misappropriation of assets that took place on or around 12 April 2012 and the legality of action taken by council subsequent to that. The investigation is currently in progress.

Auditor-General
Pietermaritzburg

27 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence